



Luxoft:  
Who is next?

Eastern Europe Starts 2019 Strong  
In The IT Services Market

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## The relationship between Luxoft, EPAM, Globant, Softvision and Endava.

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On January 18th, 2018 Velocity Partners was acquired by a peer, Endava, a Serbian-based custom software development and digital transformation firm. 6 months after the acquisition, on July 18th, 2018, Endava IPO'ed.

Following the Endava IPO, Softvision, a digital solutions provider with delivery centers most heavily concentrated in Romania, was acquired by Cognizant for \$550m (Oct-18). Now most recently, Luxoft announced that it came to terms with DXC (Jan-19) to be acquired by the former Hewlett-Packard spin-out.

### HOW ARE THESE PARTIES RELATED?

These parties solidify that Eastern European and Latin American IT Services firms are dominating the IT Services space, as well as the greater public markets; with trading multiples comparable to the SaaS space. These primarily human capital-based firms are trading at multiples in the range of subscription-based firms, showing how essential and promising the digital transformation truly is. Eastern European IT Services are currently lead by EPAM while Latin American markets are lead by Globant. This group of firms is showing serious promise, and should make investors pay close attention to these markets.

### WHO'S NEXT

#### *Eastern European & Latin American Delivery*

In 7MA's report *LATAM vs. Eastern Europe: Endava IPO & The Global Shift in IT Services* we explore the role culture, politics, and geography play in the current dominance of these two regions. Both regions pose pros and cons, with neither standing out as a clear leader.

From a valuation standpoint, we are seeing maximum benefit when companies leverage both regions, and complement with Asian support. Endava increased its Latin American headcount by 10-15% in the acquisition of Velocity Partners, bringing their headcount mix to 13% Latin America and 83% Central and Eastern Europe (as of FY18). Softvision's delivery headcount is comprised of approximately 15% Latin American, 50%+ Eastern European, and 35% India and other Asian countries – according to press releases. Luxoft's delivery headcount on the other hand according to a Q4-18 investor report consisted of 76% Eastern European with little to no Latin American delivery.

Employees located in  
Eastern & Central Europe

80% | Endava

76% | Luxoft

50%+ | Softvision





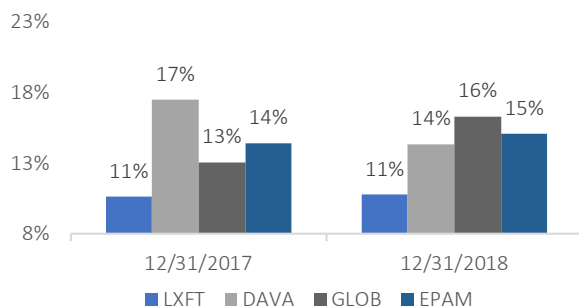
# 2019 Starting Strong

## DEAL ANALYSIS

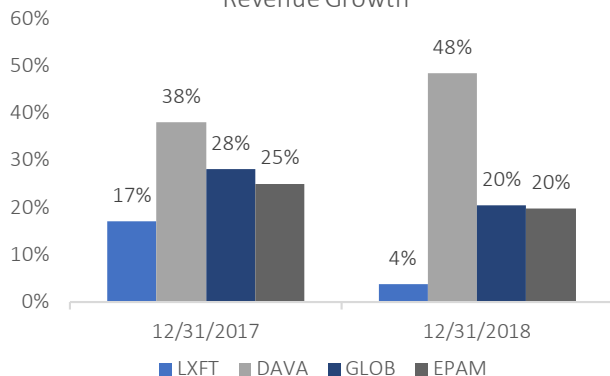
Considering these recent developments in the Latin American and Eastern European IT services markets, strong multiples on a leading Eastern European IT services firm are not surprising. However, when only taking the financials into account, the deal terms seem excessive even for a firm in these markets – reiterating the value buyers place on geography.

With a total consideration of nearly \$2.0b, DXC will pay 2.2x revenue and 20.1x EBITDA for a digitally driven Eastern European giant diversifying DXC's footprint out of APAC. Luxoft experienced healthy multiples considering their declining stock performance, revenue growth, and margins. Of its peers, Luxoft experienced by far the lowest revenue growth at 3.7% and EBITDA margins of 10.8% in 2018. Margins declined from 16.7% to 10.8% from 2015-2018 respectively.

EBITDA Margin

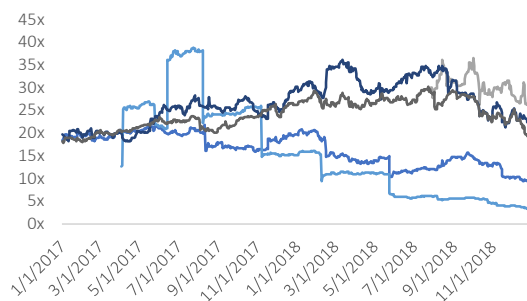


Revenue Growth

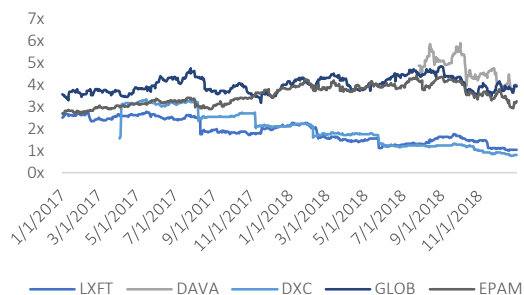


By comparison, EPAM & Endava are growing by approximately 20%+ with EBITDA margins in the 14-16% range. Both firms are currently trading at 3-4x revenue and 20-30x EBITDA.

TEV/EBITDA



TEV/Revenue



The Luxoft transaction not only begs answers around the valuation, but more importantly it strikes the question: Who's next? Will EPAM face a similar fate by another global technology services provider? Will Infosys, Wipro, HCL follow Cognizant's lead by looking to broaden their delivery capabilities in these regions? Who is the next rising star in these regions to IPO or to seek an acquisition? These are a few questions 7MA contemplated entering 2019 and we'd love to share our thoughts.

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## AUTHOR

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Garth is an associate with M&A experience serving manufacturing, healthcare, automotive, construction, and service organizations in Financial Due Diligence roles. Most recently, Garth served as an associate in the Transaction Services group at Grant Thornton LLP, a leading global Accounting firm. He earned his undergraduate degree from Messiah College and passed all four parts of the CPA exam. He is also an active Tableau user. In his spare time Garth can be found outdoors or spending time with family and friends.

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